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SUBJECT: HIGH NORTH ENERGY, IRAN INVESTMENTS, RUSSIAN
GAS: NORWEGIAN ECONOMIC HIGHLIGHTS, JANUARY 2006

Summary

[11.](#) (U) * Developing the Barents Sea as a new oil and gas province will be of global importance, underscored Statoil Chief Executive Helge Lund. Statoil's Snoehvit project is building a new energy bridge to the United States and Europe and bringing greater employment and prosperity to northern Norway.

* Italian petroleum firm ENI hit commercial amounts of oil in the Barents Sea's "Goliat Field, the second commercially viable strike in the Barents after Statoil's Snoehvit gas field.

* Norway and Russia may cooperate on oil and gas ventures beyond the Barents region. Speaking in Moscow, Norwegian Petroleum and Energy Minister Enoksen encouraged Russian companies to participate in Norwegian energy projects. The head of Russia's Federal Energy Agency went further, stating that Russia would like to see joint Norwegian-Russian ventures around the world, not just in the Barents region.

* Norway is currently producing all the natural gas it can and is unable to fill a gas supply gap in central Europe. Norway has plans to increase gas output by 50 percent over the next five years as the Snoehvit field in the Barents Sea comes on line.

* Statoil announced a \$240 million write down in the value of its share of the Iranian South Pars gas field. Cost increases from contractor Sadra and delays in production of platform topsides and platform-to-shore pipelines led to the downward adjustment.

* Seven multi-nationals have been excluded from the Norwegian Government Pension (formerly Petroleum) Fund, including Boeing, Northrup/Grumman, United Technologies, and Honeywell, after the Fund decided to divest from companies involved with nuclear weapons programs.

* A U.S. nutrition journal has warned of the dangers of eating large amounts of farmed fish, particularly salmon, citing dioxin and PCB levels. The Norwegian Food Safety Authority has pulled some smoked salmon from Norwegian shelves after finding nitrates in the product.

* Norwegian and Russian officials agreed to continue discussion on ending Russia's month-long ban on fresh Norwegian fish following meetings in Berlin.

* Norway plans to spend \$3 million to protect the world's flora with a seed bank in the Svalbard archipelago. The bank would help ensure genetic diversity is maintained in the event of a global environmental disaster, but would also serve as a depository for researchers.

* High petroleum prices resulted in a record Norwegian trade surplus - \$46 billion - in 2005.

* Economic Outlook: According to official projections, continued low interest rates will contribute to slower but steady growth in the Norwegian economy.

End Summary.

Statoil: Barents Petroleum of Global Significance

[12.](#) (U) Developing the Barents Sea as a new oil and gas province will be of global importance, underscored Statoil Chief Executive Helge Lund at the annual Confederation of Norwegian Business and Industry conference in Oslo January 4. Lund, noting International Energy Agency forecasts that world energy demand will rise by about 50 per cent before 2030, predicted that

Barents oil and gas resources would play an important role in securing the USA's and Europe's future energy supplies. Lund drew attention to the developing energy bridge between Norway and the U.S., stressing that half of the LNG from Statoil's Snoehvit field will be exported to the United States. Lund pointed out that the Snoehvit field has significantly improved employment conditions in Norway's northernmost counties. Roughly 13,000 people have been involved in work at the Hammerfest LNG plant, including 3,500 people from the northernmost counties.

Italian Firm Hits Oil in the Barents Sea

13. (U) The Norwegian Petroleum Directorate (NPD) announced on January 5 that ENI Norge, the Norwegian subsidiary of Italian oil company ENI, discovered significant oil and gas reserves in the Goliat field in the Barents Sea near Hammerfest. The oil reserves are estimated at 100 million barrels, enough to make the field commercially viable. This is the second commercially viable strike in the Norwegian Barents, after Statoil's Snoehvit natural gas field.

Growing Norwegian-Russian Oil/Gas Cooperation

14. (U) During a visit to Moscow January 23-26, Norwegian Petroleum and Energy Minister Odd Roger Enoksen stated that Norwegian companies are already working in the Russian oil and gas sector and that cooperation and participation of Russian companies in development of Norwegian deposits could be mutually beneficial. No Russian companies currently hold shares in any Norwegian oil and gas producing assets (though several Russian service companies are qualified to do business in the Norwegian Continental Shelf.) Enoksen stressed that "one of the fundamental aspects of the Russian-Norwegian energy dialogue is the stimulation of cooperation between our oil and gas companies." On January 25, the head of Russia's Federal Energy Agency, Sergei Oganessian stated that Russia values Norwegian expertise and would like to see joint ventures around the world, not just in the Barents region's Shtokman field. He further complimented Norwegian firms for their expertise in environmentally sound offshore and deep water drilling.

Norway's Gas Production at Full Capacity

15. (U) Norwegian officials say the country is unable to fill a gas supply gap in central Europe. "We are producing at full capacity. Therefore, we cannot do anything about it for the time being," Norway's Petroleum and Energy Ministry spokeswoman Trude Larstad told reporters. Norway's gas pipeline system is delivering near record volumes - 270 million cubic meters per day - to the European continent and Britain. Norway plans to increase gas output by 50 percent in the next five years by expanding production and transport facilities on the Norwegian Continental Shelf. Over the past five years Norwegian gas exports have increased from 50bcm (2000) to 80 bcm (2005). Norway's goal is to produce 120bcm by 2011.

Statoil Writes Down Iran Gas Investment

16. (U) Statoil announced a \$240 million write down in the book value of its share of the Iranian South Pars gas field. Productivity and quality problems with Sadra, the contractor responsible for engineering, procurement, and construction of platform topsides and pipelines, led to the downward adjustment. According to Statoil, strengthening of management resources and technical expertise at Sadra will be required, and the possibility of transferring parts of the remaining work to other contractors will be explored. Statoil had estimated

production of 10,000 barrel equivalent in 2007 from the project; production is now expected to begin in the second half of 2007. Statoil owns 40 percent of the venture, with Iranian firm Petropars owning the rest. Statoil Chief Executive Helge Lund stated that Statoil will focus on expanding its international business operations in other countries, as conditions for doing business in Iran are "challenging."

Norway Excludes Companies from Its Oil Fund

17. (U) Norwegian Finance Minister Kristen Halvorsen announced on January 5 that seven global companies - including U.S. firms Boeing Co., Northrup Grumman, United Technologies, and Honeywell International Inc. - have

been excluded from Norway's Government Pension (formerly Petroleum) Fund. The Fund decided to divest from companies involved in nuclear weapons programs. The other companies are: Britain's BAE Systems Plc, Finmeccanica Sp.A of Italy, and Safran SA of France. The Fund last year formed Ethics Council that reviews the ethical implications of owning shares in certain foreign companies. Finance Minister Halvorsen said the latest review resulted in selling off \$500 million worth of shares in the seven companies. "This does not exclude the possibility that there are more companies, but that will be an ongoing process," Halvorsen said. The Fund's value topped the \$200 billion mark at the end of last year. Embassy has been working with the American Chamber of Commerce and concerned companies to address the investment blacklisting issue.

Salmon: Health Warnings . . .

18. (U) The U.S. Journal of Nutrition recommends that consumption of farmed salmon be restricted to three meals a year. The Journal warns that high intake can lead to a variety of health ills (e.g., cancer and birth defects) because of high levels of PCBs (Polychlorinated Biphenyls) and dioxins. The toxin levels reported by the U.S. scientists are similar to those found by the Norwegian Food Safety Authority (NFSA), but while the U.S. scientists conclude the levels pose a health risk, the NFSA maintains that the fish are safe. Health officials in the E.U., Japan, and Singapore have pronounced Norwegian salmon safe to eat. The Norwegian Food Safety Authority reported a second possible health problem with Norwegian salmon after discovering that smoked Norwegian salmon producers were using unauthorized nitrates as a color enhancer. The EU bars nitrates in fish as a food additive. The Food Safety Authority announced that the products were withdrawn from the market and the processors have stopped using nitrates.

. . . and More Talks with Russia.

19. (U) Norwegian Minister of Agriculture Tere Riis-Johansen met Russian officials in Berlin January 12 to urge Russia to lift its recent ban on Norwegian fresh fish. Although they found no resolution, the officials decided to set up a bilateral work group on food safety issues. Further talks between Russian officials and the Norwegian Foreign Minister are scheduled for February. Russia is the largest single market for Norwegian seafood products. Seafood sales to Russia rose nearly 50 percent in 2005 to \$500 million. Producers say the impact of the ban has been tempered by substituting frozen fish exports for fresh fish. Seafood is Norway's third largest export commodity (\$4.7 billion in exports in 2005); farmed salmon exports rose 26 percent in 2005 to \$1.6 billion.

Norway Plans "Doomsday" Seed Store for Future

10. (U) Norway plans to build a "doomsday vault" in

Svalbard to store two million crop seeds to safeguard future food supplies in the event of widespread environmental collapse. According to the Norwegians the number of seeds and types of plants would be determined by the countries wishing to use the seed bank, which would be operated as if it were a bank vault. Permafrost will keep the vault below freezing point and the seeds will be further protected by three foot walls of reinforced concrete, two airlocks and high-security, and blast-proof doors. The \$3 million facility will not be permanently manned.

High Oil Prices Boost Norway's Trade Surplus to Record

11. (U) High petroleum prices resulted in a record Norwegian trade surplus - \$46 billion - in 2005. According to the Central Bureau of Statistics, total exports of goods amounted to \$100 billion, up 20 percent from 2004. Imports of goods in 2005 rose nine percent to \$53 billion.

Economic Outlook: Slowing Growth

12. (U) Norway's Central Bank forecasts that continued low interest rates will help sustain the nation's economic growth. However, decelerating offshore oil and gas investment this year could contribute to slightly slower growth. The Central Bank projects that 2006 real mainland GDP growth will decline to 3.3 percent from 3.9 percent in 2005, with even slower growth (2.5 percent)

forecast for 2007-2008.

----- Key Economic Indicators for Norway [a] -----

- GDP Growth:

Category	Volume Growth [Pct]				
	2004	2005	2006	2007	2008
Private Consumption	4.4	3.8	3.8	2.5	2.3
Public Consumption	2.3	1.8	2.0	1.8	3.0
Oil and Gas Investm.	12.3	20.0	2.5	[2.5]	[5.0]
Mainland Invest.	6.1	7.8	6.0	3.3	2.5
Exports	0.9	3.5	2.7	3.5	3.3
Imports	9.1	7.3	4.5	2.3	1.8
Mainland GDP	3.5	3.9	3.3	2.5	2.5
Total GDP	2.9	2.5	2.8	2.3	2.3
- Unempl. Rate[Pct][b]	4.5	4.5	4.0	4.0	4.0
- Inflation [Pct][c]	0.4	1.5	2.0	2.0	2.5
- Wage Growth [Pct]	3.5	3.5	4.3	4.5	4.5
- Int.Rate [M.Mkt;Pct]	2.0	2.1	2.2	2.2	2.4
Current Account					
Balance [NOK Bill]	228	319	416	366	356
- Crude Oil Price [d]	257	356	368	311	312
- Foreign Exch. Rate					
[NOK/USD]	6.7	6.4			
- U.S. Exports to					
Norway [USD Bill][e]	1.60	1.83			
- U.S. Imports From					
Norway [USD Bill][e]	6.51	7.01			

Notes: [a] Sources: The Ministry of Finance; The Norwegian Central Bureau of Statistics [CBS]; The Central Bank; [b] Surveyed unemployment; [c] Consumer price inflation; [d] Brent Crude Spot Price: NOK/Barrel; [e] Source: USDOC

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